

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Vicksburg District Library	County Kalamazoo
Fiscal Year End February 28, 2007	Opinion Date May 11, 2007	Date Audit Report Submitted to State July 12, 2007	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|-------------------------------------|--------------------------|---|
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number 269-329-7007	
Street Address 710 E. Milham		City Kalamazoo	State MI
Zip 49002			
Authorizing CPA Signature 	Printed Name Carol A. Patridge, CPA		License Number 1101019740

**Vicksburg District Library
Vicksburg, Michigan**

**Annual Financial Statements
and
Auditors' Report**

February 28, 2007

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Vicksburg District Library
Vicksburg, Michigan
Members of the Library Board and Administration
February 28, 2007

MEMBERS OF THE LIBRARY BOARD

Cheryl Lee	President
Lori Ensing	Vice President
Louise Russell	Treasurer
James Hillenbrand	Secretary
Mike Hardy	Trustee
Eloine Theobald	Trustee
Chuck Ocvirek	Trustee
Theresa Hambright	Trustee

ADMINISTRATION

Carolyn Sutter	Library Director
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Independent Auditors' Report

Members of the Library Board
Vicksburg District Library
Vicksburg, Michigan

We have audited the accompanying financial statements of governmental activities and each major fund of the Vicksburg District Library as of February 28, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Vicksburg District Library's management. Our responsibility is to express opinions on the entity wide and governmental fund financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Vicksburg District Library as of February 28, 2007 and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The managements' discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vicksburg District Library's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
May 11, 2007

**Vicksburg District Library
Management's Discussion and Analysis
February 28, 2007**

Introduction

GASB 34 is a required federal financial reporting model for all government agencies. This is the third year Vicksburg District Library has been keeping records and having accounting done by GASB standards. This section of the Library's annual financial report presents a required discussion and analysis of the Library's financial performance during the Library's fiscal year ended February 28, 2007 in the context of the audit and as a broad overview of the Library's finances. These reports done by the auditor are another way of summarizing the library's financial status at the end of the fiscal year in addition to the February financial statement/balance reports done by the Library. Because of Vicksburg District Library's relatively small and simple operation and the clarity of detail in our standard financial reports, the GASB 34 standards add information only in tracking of capital assets.

Part I

Financial Analysis of the Library as Whole – Financial Highlights The first sections of the Library's financial statements report information about the Library as a whole and changes from the prior year. The Library's Assets minus its Liabilities results in the Net Assets as viewed on 4-1.

Statement of Assets

Assets: The Library's Net Assets increased by \$13,817 in 2006/2007 and increased by \$3,285 in 2005/2006.

Revenue: The Library's main source of revenue is property taxes, also referred to as millage. The property taxes represent 77.6% of all revenue in 2006/2007. This revenue increased from \$211,878 to \$222,481 or 5% from the prior fiscal year. Penal fine revenues stayed about the same. Memorial Fund donations totaled \$1,975. Fines and fees revenue was \$14,911.

Expenses: The most significant expense of almost any organization is for personnel. Vicksburg District Library's personnel costs increased by \$35,097 or 19% in this reporting year mainly due to the addition of hours worked and full time benefits. There is \$26,442 in depreciation expenses calculated for this year.

This section is followed by a Statement of Activities for the reported fiscal year. It gives more specific information on how the Library's net assets changed during that year.

Vicksburg District Library
Management's Discussion and Analysis
February 28, 2007

Part II

Statement of Activities

This portion of the report presents information on how the Library's net assets changed over the year through its revenues and expenditures.

Liabilities

The accounting shown on page 4-1 lists salaries and benefits payable that was earned in FY 2006/2007 that will be paid out in the next fiscal year. The other part is deferred revenue which is primarily millage, collected prior to the beginning of the fiscal year and designated for it which is considered a liability in the current Fiscal Year, owed to the next fiscal year.

Net Assets

The results of this year's operating for the Library as a whole are reported in the statement of activities which shows the sources of revenue and amount from each for 2006/2007.

Property taxes for operations and penal fines constitute the vast majority of the Library's operating revenue sources. Fines and fees and interest rates are more minor yet growing sources of income. Grants, contributions and donations can and do fluctuate greatly from one year to the next and can never be relied on when budgeting. Director annually evaluates the needs of the Library and then the Board balances those needs with available unrestricted resources in adopting the budget.

Part III

Financial Analysis of the Government as a Whole

The Library's combined net assets increased \$281,995 over the course of this fiscal year's operations to a total of \$810,031.

Vicksburg District Library
Management's Discussion and Analysis
February 28, 2007

Net Assets as of February 28, 2007 and 2006

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Assets		
Current and other non-current assets	\$ 518,924	\$ 486,258
Capital assets	<u>313,377</u>	<u>323,741</u>
Total Assets	832,301	809,999
Liabilities		
Total liabilities	<u>22,270</u>	<u>281,963</u>
Net Assets		
Invested in capital assets	309,792	323,741
Unrestricted	<u>500,239</u>	<u>204,295</u>
Total Net Assets	<u>\$ 810,031</u>	<u>\$ 528,036</u>

The largest component of the Library's net assets is its unrestricted net assets. These represent resources that may be used at the Library's discretion, but often have limitations based upon policy action. Investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others) is the remaining portion of the Library's net assets.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Library's net assets changed during the fiscal year.

Vicksburg District Library
Management's Discussion and Analysis
February 28, 2007

Change in Net Assets for the Fiscal Year Ended February 28, 2007 and 2006

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues		
Property taxes	\$ 288,783	\$ 271,362
Single business tax	1,852	734
State aid	8,198	4,938
Penal fines	26,586	25,986
Interest on investment	15,907	6,588
Contribution and donations	13,222	5,677
Library fines and fees	14,911	15,842
Other miscellaneous	<u>2,695</u>	<u>2,082</u>
Total Revenues	372,154	333,209
Expenses		
Total Expenses	<u>358,337</u>	<u>315,885</u>
Increase (decrease) in net assets	13,817	17,324
Prior period adjustment	-	254,139
Beginning net assets	<u>796,214</u>	<u>524,751</u>
Ending net assets	<u>\$ 810,031</u>	<u>\$ 796,214</u>

Financial Analysis of the Library's Funds

The Library has 3 funds: Memorial Fund, General Fund and the designation for monies received but unexpended in prior years - Prior Years Fund Balance or PYFB. The Memorial Fund is all donations in memory of someone or something; General Fund is all revenue deferred for and booked to be used in the current fiscal year and all other revenue received during the fiscal year; Prior Years Fund Balance (PYFB) is composed of all revenues received but left unexpended in prior fiscal years and is separated into capital projects or equipment and building/expansion fund. The board has adopted language to describe these monies in general

Vicksburg District Library
Management's Discussion and Analysis
February 28, 2007

which can be found in the Policy Manual. The Library Board has the ability to create separate funds to help manage money for specific purposes, or to maintain accountability for certain activities such as a capital campaign fund or Capital Projects Fund.

General Fund

General fund is all revenue deferred for and booked for, to be used in the current fiscal year. The General Fund activities saw revenues exceed expenditures by \$13,817 and \$3,285 in fiscal year 2006/2007 and 2005/2006, respectively. It has already been pointed out that property taxes are the Library's primary source of revenue at 77.6% and 80.6% of its revenues in fiscal years 2006/2007 and 2005/2006, respectively.

The Board in recent history has amended the budget several times during the year to reflect changes in revenue and expenditures in order to carefully monitor both. The original budget attempts to be conservative in both revenue and expenditures so that future changes usually reflect a positive change with more funds available.

Revenues and expenditures rose above and fell below the final budget number by \$10,089 and \$28,624, respectively.

Fines and fees revenue were \$26,586 and \$25,986 in fiscal years 2006/2007 and 2005/2006, respectively.

The Library has no debt and has never had any debt because the original library, built in 1902, was given to the Ladies Library Association by Fannie Bair. The addition that opened in 1986 was the product of a very successful fund drive and the use of building trades classes. It was fully paid for when it opened.

Memorial Fund

These are monies given to the library that are specifically designated for purchase of material in memory of specific people. Because it is designated revenue, it is not separated and dropped into the Prior Years Fund Balance at the end of any fiscal year, but accounted for separately and continued into the next fiscal year although balances below \$5 are dropped and those small amounts do become part of PYFB. The amount in this fund as of February 28, 2007 and 2006 was about \$8,307 and \$10,445, respectively.

PYFB

This acronym designates Prior Years Fund Balance for money that was unused in prior fiscal years for whatever reason. This fund can be used as a cushion for a reduction in revenues to pay operational expenses in any year, to fund expensive capital projects or purchases or some of it (non-tax revenue) can be reserved for future capital projects including land purchase or construction.

**Vicksburg District Library
Management's Discussion and Analysis
February 28, 2007**

Part IV

Library Budgetary Highlights

In this fiscal year the revenue highlights were contributions and donations that were better than anticipated. The revenues also reflect a rise in interest rates so that invested funds are creating significant revenue.

In expenditures of note are the addition of employees, expansion of one librarian position to full time with medical and retirement benefits and the expansion of the hours worked by another.

Economic factors and next year

The Library's property tax income is negatively affected by mandated tax captures, such as Brownfield TIFAs or tax breaks to attract business. It is positively affected by new development and new development proposed for the Village would bring a boost to Library tax revenue. The Board has already adopted the maximum millage rate for next year and the County Assessor has already determined the property values for next year. Our millage rate, reduced by Headlee, will be .8436 percent of a mill. Penal fine income is always subject to hijacking by other agencies. Another area of funding in danger is State Aid, which is currently about \$4,500

Part V

Capital Assets Administration

As of February 28, 2007 and 2006 the Library had \$313,377 and \$323,741, respectively, invested in capital assets including land, building, furniture and equipment in accordance with its capitalization policy. Section 4-8.

Contacting the Library's Financial Management

If you have questions about this report or would like additional information, contact the Library Director at 215 South Michigan Avenue, Vicksburg, MI 49097 or call (269) 649-1648.

Vicksburg District Library
Statement of Net Assets
February 28, 2007

	Governmental Activities
Assets	
Cash	\$ 382,424
Taxes receivable	131,520
Interest receivable	3,397
Prepaid expenses	1,583
Land	3,585
Capital assets, net	<u>309,792</u>
 Total assets	 <u>832,301</u>
Liabilities	
Accounts payable	6,073
Salaries and benefits payable	<u>16,198</u>
 Total liabilities	 <u>22,270</u>
Net Assets	
Invested in capital assets	309,792
Unrestricted	<u>500,239</u>
 Total net assets	 <u><u>\$ 810,031</u></u>

See Accompanying Notes to Financial Statements

Vicksburg District Library
Statement of Activities
For the Year Ended February 28, 2007

Revenue

Property taxes	\$ 288,783
Single business tax	1,852
State aid	8,198
Penal fines	26,586
Interest on investments	15,907
Contributions and donations	13,222
Library fines and fees	14,911
Other miscellaneous	2,695
Total revenue	<u>372,154</u>

Expenses

Conferences, workshops, and travel	1,919
Insurance	4,978
Library books and materials	27,784
Memberships	2,042
Miscellaneous	951
Professional fees	8,930
Program costs	12,373
Repair and maintenance	9,826
Salaries and fringe benefits	187,365
Special projects	52,482
Supplies	2,284
Technology	7,210
Utilities	13,751
Depreciation	26,442
Total expenditures	<u>358,337</u>

Change in net assets

Net assets - beginning of year	528,036
Prior period adjustment	<u>268,178</u>
Net assets - beginning of year restated	<u>796,214</u>
Net assets - end of year	<u>\$ 810,031</u>

See Accompanying Notes to Financial Statements

Vicksburg District Library
Balance Sheet - Governmental Funds
February 28, 2007

	General Fund
Assets	
Cash	\$ 382,424
Taxes receivable	131,520
Accounts receivable	-
Interest receivable	3,397
Prepaid expenses	<u>1,583</u>
 Total assets	 <u>\$ 518,924</u>
 Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 6,073
Salaries and benefits payable	16,198
Deferred revenue	<u>285,923</u>
 Total liabilities	 <u>308,194</u>
 Fund Balance	
Designated for memorials	10,725
Undesignated	<u>200,005</u>
 Total fund balance	 <u>210,730</u>
 Total liabilities and fund balance	 <u>\$ 518,924</u>

See Accompanying Notes to Financial Statements

Vicksburg District Library
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Assets
February 28, 2007

Total fund balances for governmental funds \$ 210,730

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 3,585	
Buildings and improvements	438,478	
Equipment and furniture	39,564	
Library books	347,628	
Less: accumulated depreciation	<u>(515,878)</u>	313,377

Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.

285,924

Net assets of governmental activities \$ 810,031

Vicksburg District Library
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended February 28, 2007

	General Fund
Revenues	
Property taxes	\$ 271,037
Single business tax	1,852
State aid	8,198
Penal fines	26,586
Interest on investments	15,907
Contributions and donations	13,222
Library fines and fees	14,911
Other miscellaneous	2,695
Total revenues	<u>354,408</u>
Expenditures	
Conferences, workshops, and travel	1,919
Insurance	4,978
Library books and materials	43,862
Memberships	2,042
Miscellaneous	951
Professional fees	8,930
Program costs	12,373
Repair and maintenance	9,826
Salaries and fringe benefits	187,365
Special projects	52,482
Supplies	2,284
Technology	7,210
Utilities	13,751
Total expenditures	<u>347,973</u>
Change in fund balance	6,435
Fund balance - beginning	<u>204,295</u>
Fund balance - ending	<u><u>\$ 210,730</u></u>

See Accompanying Notes to Financial Statements

Vicksburg District Library
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended February 28, 2007

Net change in fund balances - total governmental funds	\$	6,435
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Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 16,078		
Depreciation expense	<u>(26,442)</u>		(10,364)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Property taxes		<u>17,746</u>	
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Change in net assets of governmental activities	\$	<u><u>13,817</u></u>
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Vicksburg District Library
Notes to Financial Statements
February 28, 2007

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

The accounting policies of Vicksburg District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Library's significant accounting policies:

Reporting Entity

The Library is located in Vicksburg, Michigan and is governed by an appointed eight-member board. The Library is primarily funded through a tax levy, penal fines and library fees. The penal fines are important since they are the library's second largest source of revenue and have no relation to library fines. Revenue is used to operate and staff the Library. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are

recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts (1) invested in capital assets, net of related debt (2) restricted net assets, and (3) unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Vicksburg District Library
Notes to Financial Statements
February 28, 2007

Property taxes and penal fines associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

Financial Statement Amounts

Receivables and Payables – All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Capital Assets – Capital assets are defined by the Library as assets with an initial cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated assets are reported at an estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20 – 50 years
Furniture and equipment	5 – 10 years
Improvements	10 – 20 years
Books	5 years

Compensated Absences – It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Library does not have a policy to pay any amounts when employees separate from service with the Library. Vacation leave is accrued as the benefits are earned by the employees, as the leave is attributable to past service and it is probable that the Library will compensate the employees for the benefits through paid time off. Employees must use earned vacation time within one year from their anniversary date.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

Comparative Data

Comparative data is not included in the Library's financial statements.

Note 2 - Stewardship, Compliance, Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General Fund. All annual appropriations lapse at fiscal yearend.

The appropriation level adopted by the Board is the level of control authorized under the Act. State law requires the Library to have its budget in place by February. A library is not considered in violation of the Act if reasonable procedures are in use by the library to detect violations.

Vicksburg District Library
Notes to Financial Statements
February 28, 2007

Budgeted amounts are as originally adopted, or as amended by the Library Board throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Appropriations lapse at year end and therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

Note 3 - Deposits and Investments

At yearend, the Library's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities
Cash	<u>\$ 385,821</u>

Interest rate risk – In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 60 months.

Credit risk – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase;

obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government does not allow for an investment in any one issuer that is in excess of five percent of the government's total investments.

Credit Risk - Deposits

The deposits of the Library were reflected in the accounts of financial institutions at \$388,778 of which \$388,778 is covered by federal depository insurance.

Note 4 - General Fixed Assets

A summary of the changes in general fixed assets is as follows:

Land	\$ 3,585	\$ -	\$ -	\$ 3,585
Other capital assets				
Buildings and improvements	438,478	-	-	438,478
Furniture and equipment	39,564	-	-	39,564
Library books	<u>331,550</u>	<u>16,078</u>	<u>-</u>	<u>347,628</u>
Subtotal	813,177	16,078	-	829,255
Accumulated depreciation	<u>(489,436)</u>	<u>(26,442)</u>	<u>-</u>	<u>(515,878)</u>
Net book value	<u>\$ 323,741</u>	<u>\$ (10,364)</u>	<u>\$ -</u>	<u>\$ 313,377</u>

Depreciation for the year ended February 28, 2007 amounted to \$26,442.

Vicksburg District Library
Notes to Financial Statements
February 28, 2007

Note 5 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The Library has purchased commercial insurance for the protection of real and personal property. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past four fiscal years.

Note 6 - Defined Benefit Pension Plan

Plan Description

The Library is an agent for a multiple-employer, defined benefit pension plan with the Municipal Employees' Retirement Systems (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty and duty death allowances, and post-retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ended December 31, 2004. MERS was organized pursuant to Section 12a of Act 156, Public Acts of 1851 (MSA 5.3339(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission.

MERS issues a publicly-available financial report that includes financial statements and required supplemental information for the retirement system. That report may be obtained by writing to Municipal Employees Retirement Systems of Michigan, 447 Canal Road, Lansing, MI 48917-9755.

Funding Policy

MERS members are required to contribute an amount varying from 0.0% to 10.0%, depending upon which plan they fall under. The Library is required to contribute at an actuarially-determined rate; the current rate is 12.00% of annual covered payroll depending on the plan. The contribution requirements of plan members and the commission are established, and may be amended by MERS.

Annual Pension Cost

For the year ended February 28, 2007, the Library contributions were \$8,109 and were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined using the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used included (a) 8.0% long-term net investment rate of return, (b) projected salary increases of 4.5% per year, and (c) 4.5% per year cost-of-living adjustments. The actuarial value of MERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Vicksburg District Library
Notes to Financial Statements
February 28, 2007

Trend Information

Ended February 28,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	576	100%	\$ -
2003	2,019	100%	-
2004	3,365	100%	-
2005	4,469	100%	-
2006	8,109	100%	-

Note 7 - Fund Equity

Specific designations include the following:

Designated for memorials and donations – This designation was created to indicate funds set aside for memorials and donations that are donor-restricted.

Note 8 – Prior Period Adjustment

Under governmental wide financial reporting, property tax revenue is recognized when levied. In FY 2005/2006, property tax revenues were reported as deferred revenue. This resulted in revenues and the Statement of Net Assets being understated by \$268,178.

Vicksburg District Library
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended February 28, 2007

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Property taxes	\$ 317,616	\$ 273,265	\$ 271,037	\$ (2,228)
Single business tax	1,100	1,100	1,852	752
State aid	5,000	8,195	8,198	3
Penal fines	25,000	26,575	26,586	11
Interest on investments	4,500	12,100	15,907	3,807
Contributions and donations	4,300	11,950	13,222	1,272
Library fines and fees	14,850	14,785	14,911	126
Other miscellaneous	1,650	2,525	2,695	170
Total revenues	374,016	350,495	354,408	3,913
Expenditures				
Conferences, workshops, and travel	3,800	2,000	1,919	(81)
Insurance	5,500	5,000	4,978	(22)
Library books and materials	36,250	44,150	43,862	(288)
Memberships	3,000	2,050	2,042	(8)
Miscellaneous	300	4,825	951	(3,874)
Professional fees	16,850	10,475	8,930	(1,545)
Program costs	11,250	8,250	12,373	4,123
Repair and maintenance	14,306	3,950	9,826	5,876
Salaries and fringe benefits	185,772	194,360	187,365	(6,995)
Special projects	53,438	56,465	52,482	(3,983)
Supplies	16,700	2,170	2,284	114
Technology	11,500	7,330	7,210	(120)
Utilities	15,350	14,950	13,751	(1,199)
Total expenditures	374,016	355,975	347,973	(8,002)
Change in fund balance	-	(5,480)	6,435	11,915
Fund balance - beginning	131,924	132,532	204,295	(71,763)
Fund balance - ending	\$ 131,924	\$ 127,052	\$ 210,730	\$ (59,848)

Vicksburg District Library
Required Supplemental Information
Analysis of Funding Progress - Employee Retirement System
February 28, 2007

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated.

Schedule of Funding Progress

Actuarial Valuation Date December 31	Actuarial Value of Assets (a)	Accrued Liability (AAL) Entry Age (b)	Actuarial Underfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1997	\$ 16,111	\$ 19,446	\$ 3,335	83%	\$ 38,624	9%
1998	19,879	25,779	5,900	77%	41,234	14%
1999	24,954	24,050	(903)	104%	20,487	-4%
2000	31,010	28,930	(2,080)	107%	44,089	-5%
2001	36,848	42,481	5,633	87%	28,836	20%
2002	34,283	43,800	9,517	78%	27,654	34%
2003	35,077	49,780	14,703	71%	31,178	47%
2004	37,324	52,115	14,791	72%	32,772	45%
2005	40,792	58,620	17,828	70%	34,957	51%

May 11, 2007

To the Management and
Board of Directors of
Vicksburg District Library

In planning and performing our audit of the financial statements of Vicksburg District Library as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Vicksburg District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies *[and other deficiencies that we consider to be material weaknesses]*.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Financial Statement Preparation Controls

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Library financial statements. However, if at any point in the audit we as auditors are part of the Library's control system for producing reliable financial statements, auditing standards indicate that the Library has a control deficiency. The preparation of financial statements and disclosures, even from information provided by Management, meets this definition and is, therefore, a control deficiency. We recommend that Management and those charged with governance evaluate and document their informed decision on the costs and benefits of contracting for this service with our firm.

QuickBooks Accounting Software

We noted that the Library uses QuickBooks for its accounting software. In many cases QuickBooks is the best option for a Library's accounting software and there are very good business reasons to use QuickBooks. It is however important that Management and those charged with governance understand the inherent limitations of the QuickBooks accounting software package. QuickBooks, unlike most other accounting software packages, does not provide for an irreversible closing of fiscal years. Instead, QuickBooks provides an option to password protect the accounting records up through a specific date. We encourage all users of QuickBooks to implement this option and password protect those years which have been audited, after ensuring that QuickBooks records match the audited financial statements. This password protection however does still allow changes to prior periods once the password is entered. The importance of not making changes to password protected periods needs to be instilled in all who know the password. In addition, QuickBooks does not void checks per se. When the void check option is chosen in QuickBooks it in effect deleting the check as of the date the check was written rather than voiding the check as of the date you choose to void it. This poses problems when the check issue date and the void date are in different fiscal years.

There are broad categories of permissions which should be reviewed and set for each particular user, based on their needs. One of these categories is the ability to change or delete transactions and the ability to change or delete transactions before the closing date. Remember that the Admin user automatically has rights to all broad categories, and therefore may not be the correct user set-up for some users. These categories however are very broad. Anyone given access to input accounts receivable invoices has access to record the receipt of accounts receivable monies and create write-offs of accounts receivables. Therefore QuickBooks cannot be relied upon to enforce segregation of duties.

We recommend that you seriously consider the costs and benefits of QuickBooks software as compared to the Library's needs. We also recommend that this consideration be done on an annual basis as facts and circumstances change throughout the year. The accounting software which is appropriate for a start-up entity may not continue to be appropriate for that same entity as it grows. We are neither recommending for nor against continuing to use QuickBooks as the Library's accounting software, we are simply recommending that the decision made by Management and those charged with governance be a fully informed decision.

Documentation of Internal Controls

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the Library. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was complete relative to the disbursements and payroll process. We recommend that the Library also document control procedures for receipts, journal entries, fixed assets, budget process, and monthly financial statement procedures. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in

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Vicksburg District Library
May 11, 2007

this procedure manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

This communication is intended solely for the information and use of management, board of directors, *and* others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Yeo & Yeo, P.C.

Kalamazoo, Michigan
May 11, 2007